

Mayor's Report

Honourable Speaker;
Deputy Mayor;
Members of the Mayoral Committee;
Aldermen;
Councillors;
Municipal Manager and officials;
Distinguished guests;
Ladies and gentlemen.

Today I am presenting to you the medium term revenue and expenditure framework in accordance with the powers vested in me in terms of section 16(2) of the Municipal Finance Management Act.

Allow me first of all to thank all councilors and officials who have sacrificed their time to give input into the draft budget. An extensive consultation process was followed during April 2011 in order to solicit the views of the local community, National and Provincial Treasury on the draft budget. The representations made in connection with the budget together with my response are submitted under cover of a separate report attached hereto. It is recommended that no amendments be made to the draft budget.

Budgeting is not only about allocating funds but also to put our policies in practice. Our town has been hard hit by a severe drought and although we are thankful for the rain and the commissioning of the reverse osmosis plant, much still need to be done in order to ensure sustainable water provision to all our citizens. We once again thank all our fellow country men and women who have unselfishly contributed towards drought relief efforts, it is sincerely appreciated.

Poverty and unemployment remains our biggest challenges, putting pressure on our revenue streams as is reflected in our low collection rates. We therefore support the call made by the President in his state of the nation address to align our programmes with the job creation imperative. Given the low tax base of our municipality, it has become imperative that effective management of our resources should be number one on the service delivery agenda. We must commit ourselves to doing things differently and to do more with the available resources. This requires us to be effective and efficient in planning and executing our programmes to ensure better value for taxpayers' money. It is against this backdrop that I urge both Councilors and the administration to constantly innovate and react differently to respond to the challenges we are faced with.

The application of sound financial management practices is a prerequisite for financial viability and it is expected of all of us to implement our policies diligently and to seek new innovative ways of enhancing revenue. The fact that we are dependent on grant funds for capital projects is a limitation on our ability to satisfy the needs of every single

citizen in the municipal area. Our budget is therefore focused on infrastructure and particularly roads and stormwater, and the provision of water and electricity.

A capital budget amounting to R 53,4 million is proposed for 2011/12 (R48,1 million and R26,4 million for the outer years). The capital budget is primarily funded from national and provincial grant funds (R 47,9 million).

The following represents a summary of the major capital projects to be undertaken during 2011/12:

- An amount of R14,6 million will be spent on the exploration of aquifers in an effort to curb the drought that is currently experienced in our town;
- R2,4 million will be spent on the upgrading of the Merweville sewerage project (funds rolled over from previous year);
- R9,4 million is allocated to the 132kV substation;
- Bridges and sidewalks amounting to R3,5 million will be built;
- R15,4 million will be spent on resurfacing of gravel roads and storm water (retention dams);
- The municipality has also received a R3,1 million allocation from the Neighbourhood Development Partnership Grant;

We intend to use labour intensive methods to carry out infrastructure projects and will continue to support the graduate internship programme to prepare young graduates for their professional career. We will also continue our efforts to explore the benefits offered by the Expanded Public Works Programme.

Speaker, I wish to emphasize the fact that it was extremely difficult to balance the budget because the challenges and constraints are many, yet we must speed up service delivery and improve on our performance as a municipality.

Despite all the challenges that we are faced with, we remain confident and hopeful that soon the tide will turn and that together we will do more to ensure that all our people gets the quality of services they deserve.

Resolutions

It is recommended that:

1. Council resolves that the annual budget of the municipality for the financial year 2011/12; and indicative for the two projected outer years 2012/13 and 2013/14 be approved as set out in the following schedules:
 - 1.1 Operating revenue and expenditure by standard classification reflected in table A2;
 - 1.2 Operating revenue and expenditure by municipal vote reflected in table A3;
 - 1.3 Operating revenue by source and expenditure by type reflected in table A4;

- 1.4 Capital expenditure by vote, standard classification and funding reflected in table A5;
2. Council resolves that property rates be levied and increased by 6% for the 2011/12 financial year;
3. Council resolves that tariffs and charges as reflected in the tariff book be increased as follows for the 2011/12 financial year:
- | | |
|---|---|
| 3.1 Water | - 52% for Beaufort West only and 6% for the outlying areas; |
| 3.2 Sanitation | - 6%; |
| 3.3 Refuse Removal | - 6%; |
| 3.4 Sundry Tariffs (excluding cemeteries) | - 6%. |
4. Council resolves to increase electricity tariffs by 15% for poor households and by 20,38% for all other consumers for the 2011/12 financial year;

Executive Summary

Budget Assumptions

The following assumptions were made when the budget was prepared:

- Employee costs will increase by 8% calculated on TASK job evaluations and grading system ;
- Electricity bulk purchases increase by 26,71%;
- CPIX for 2011/12, 2012/13 and 2013/14 are 4.8%, 5,3% and 5.5% respectively;
- Although inflation expectations as projected by National Treasury are 4,8%, most expenditure items were increased by more than that due to expected increases in input costs;
- Provision for doubtful debts is 6.3% of total rates and service charges; and
- Minimal growth in water and electricity revenue due to increased consumption (new low cost houses).

National treasury Guidelines

Growth in consumption expenditure should be carefully managed and greater transparency to supply chain management processes should be introduced.

When revising rates, tariffs and other charges, the municipality must take into account labour and other input costs, the need to ensure financial sustainability, local economic conditions and the affordability of services taking into consideration the municipality's indigent policy.

Municipalities must also ensure that their water tariffs are cost reflective and that tariffs are structured in such a way to protect basic levels of service. Tariffs should also be

designed to encourage efficient and sustainable consumption (e.g. through increasing block tariffs).

Municipalities are urged to give priority to the following:

- Ensure that service delivery and capital project use labour intensive methods wherever appropriate;
- Ensure that service providers use labour intensive approaches;
- Support labour intensive LED projects;
- Participate fully in the Expanded Public Works Programme;
- Ensure that drinking water meets the required quality standards at all times;
- Protect the poor from the worst impacts of the economic downturn;
- Supporting meaningful local economic development initiatives that foster micro and small business opportunities and job creation;
- Securing the health of our asset base by increased spending on especially the income generating assets; and
- Expediting spending on capital projects that are funded by conditional grants.

Special attention should be paid to control expenditure on non essential activities and nice-to-have items. We should also ensure that we receive value for money when appointing consultants. Particular attention should also be paid to managing all revenue and cash streams effectively, especially debtors.

Budget Summary

Revenue is projected to grow by 10,7% from R191,3 million in 2010/11 to R211,7 million in 2011/12.

The major revenue items are as follows:

	2010/11	2011/12	% Total Revenue	Growth 2010/11 - 2011/12	2012/13	2013/14
Property Rates	17,572	20,139	9.6%	14.6%	21,750	23,490
Service charges	66,431	79,723	37.6%	20.0%	87,636	99,090
Operational grants	49,095	50,377	23.8%	2.6%	57,682	59,737
Capital grants	45,135	47,942	22.6%	6.2%	21,119	-
Other own revenue	13,080	13,550	6.4%	3.6%	14,388	15,452
	191,313	211,731	100%	10.7%	202,575	197,769

Revenue from service charges represents the bulk of the revenue at 37,6% followed by operational grants of 23,8%, capital grants of 22,6% and rates of 9,6%. The projected

revenue numbers are based on the current year full year forecast and adjusted for tariff increases.

The operational expenditure has increased by 11,1% from R155,9 million in 2010/11 to R173,2 million in 2011/12. The major expenditure items are as follows:

	2010/11	2011/12	% Total Expenditure	Growth 2010/11 - 2011/12	2012/13	2013/14
Employee costs	48,185	55,714	32.2%	15.6%	59,778	64,451
Remuneration of councillors	3,575	3,798	2.2%	6.2%	4,107	4,424
Depreciation	11,050	11,507	6.6%	4.1%	12,123	12,902
Finance charges	1,569	1,968	1.1%	25.4%	2,323	1,869
Bulk purchases	26,196	38,531	22.2%	47.1%	47,521	55,632
Repairs & Maintenance	12,107	14,763	8.5%	21.9%	15,921	17,120
Other expenditure	53,243	46,927	27.1%	-11.9%	49,123	50,901
	155,925	173,208	100%	11.1%	190,896	207,299

Employee costs and bulk purchases represents the bulk of the expenditure at 32,2% and 22,2% respectively. Other expenditure comprises among others general expenses such as telephone, audit costs, as well as expenditure on low cost housing (top structures) and electrification of Central Karoo.

The budget can be summarized as follows:

Operating revenue	R 211 731
Less: Operating Expenditure	<u>R 173 208</u>
Surplus	R 38 523
Less: Capital Grants	R 47 942
Add: Depreciation	<u>R 9 487</u>
Surplus	<u>R 68</u>

The impact of tariff increases is depicted in Table SA14.

Key Financial Indicators

Financial Indicators	Basis of Calculation	Audited Actual 2008/09	Audited Actual 2009/10
Borrowing Management:			
Borrowing to asset ratio	Total long term borrowing / Total assets	3,8%	5,2%
Capital charges to operating expenditure	Interest and Principal Paid / Operating Expenditure	1,5%	3,5%
Safety of Capital:			
Debt to equity	Loans, Accounts payable, Overdraft / Funds & Reserves	54%	51,2%
Gearing	Funds & Reserves / Long Term Borrowing	114,6%	170,3
Liquidity:			
Current Ratio	Current assets / Current Liabilities	1,3:1	1,4:1
Liquidity Ratio	Monetary assets/Current Liabilities	0.7:1	0.7:1
Revenue Management			
Debtors collection rate	Receipts / Billings	93,7%	96,6%
Outstanding debtors to revenue	Outstanding debtors / Revenue	16,7%	21,8%
Other Indicators			
Electricity distribution losses	Total units purchased less total units sold / Total units purchased	15,6%	13,0%
Water distribution losses	Total units purchased less total units sold / Total units purchased	28%	32%
Staff cost to total operating revenue	Employee related cost / Total Operating Own Revenue	25,8%	28,3%

Drinking water quality and waste water management

The Beaufort West Municipality is the Water Service Authority in the Central Karoo and as water service provider responsible for the provision of drinking water and management of waste water in the towns of Beaufort West, Merweville and Nelspoort.

Blue drop and green drop performance ratings

During the April 2010 Blue Drop Excellence Awards Beaufort West received Blue Drop Certification with an overall score of 95%. Nelspoort and Merweville scored 70% and 86.3% respectively.

Concerning the green drop, Beaufort West received a green drop certification of 83%, while Nelspoort and Merweville received 26% and 20% respectively.

The challenges that we are faced with for both the blue drop and green drop are as follows:

- Process Controlling

Staff needs training to ensure skills adequacy.

- Efficiency of Monitoring Programme and credibility of sample analyses

Proof of laboratory credibility through accreditation or participation in an accredited proficiency testing scheme is essential for DWQ compliance and credibility of sample results.

- Water safety plan

A water safety plan was compiled for Beaufort West, Nelspoort and Merweville. The water safety plan consists of a complete risk assessment from catchment to consumer and summarizes the risk assessment in a risk matrix. It also indicates the control measures required to mitigate the risks.

- General

The water department is using old and outdated equipment;
There is a shortage of ground and raw surface water due to drought conditions;
The safety equipment is inadequate; and
Personnel vacancies also negatively impacts on the operations of the section.